

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON HLABISA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Hlabisa Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Standard of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Hlabisa Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hlabisa Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended, in accordance with SA Standard of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

10. As disclosed in note 2 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of the conversion from IMFO to SA Standards of GRAP for the year ended 30 June 2010.

Unauthorised expenditure

11. As disclosed in note 32 to the financial statements, unauthorised expenditure totalling R7,554 million was incurred as a result of overspending on the total final approved budget.

Irregular expenditure

12. As disclosed in note 34 to the financial statements, irregular expenditure totalling R658 701 was incurred as a result of payments being made to service providers who were directors or shareholders in the service of the municipality and other state departments.

Going concern

13. Whilst the municipality has prepared financial statements on a going concern basis, there are indicators that its financial sustainability is under threat as the grants and concomitant assets (investments and cash and bank) are insufficient to support the existence of grants and other liabilities, with a shortfall of R5,227 million.

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Other information included in the annual report

15. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

16. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations (MFMA, DoRA and Local Government Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Local Government, Municipal Planning and Performance Regulations (Regulations –GNR/GN) and financial management (internal control).

Predetermined objectives

18. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Non-compliance regulatory and reporting requirements

19. Submission of budget implementation plan

The service delivery budget implementation plan was not approved by the mayor within the stipulated 28 days after the approval of the budget, as required in terms of section 53(1)(c)(ii) of the MFMA.

20. Integrated development plan

The community was not allowed 21 days to comment on the draft 2009-10 IDP, as required in terms of section 15(3) of the local government, municipal planning and performance management regulations.

21. No performance assessments

No performance reviews were conducted for section 57 employees, as required by section 41(1) (c) of the MSA.

22. Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved strategic plan/corporate plan/annual

performance plan/integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?

- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

23. Inadequate content of integrated development plan

The IDP does not include input indicators, output indicators and outcome indicators in respect of each development priority and objective.

24. Reported information not consistent

- Performance report does not include measures taken to improve performance.
- The annual performance report does not include prior year information.

Compliance with laws and regulations

Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)

Supply Chain Management Legislative requirements were not adhered to

- 25. Councillors and staff members did not declare in writing to the municipal manager their financial interest, as required by schedule 1(5) and schedule 2(5) to the MSA.**

Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)

Expenditure was not paid within the parameters set by applicable legislation

- 26. Management did not take reasonable steps to ensure that all payments are made within 30 days of receiving the relevant invoice, as required by section 65(2)(e) of the MFMA.**

INTERNAL CONTROL

- 27. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with key laws and regulations (MFMA, DoRA and MSA), but not for the purpose of expressing an opinion on the effectiveness of internal control.**
- 28. The matters reported are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.**

- **Leadership**

The leadership has not exercised adequate oversight to ensure compliance with laws, regulations and internal controls.

- **Governance**

Inadequate monitoring and reviews were performed to ensure that the entity identifies risk relating to the achievement of financial and performance reporting. Internal controls were not developed to prevent, detect and correct non-compliance, unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure.

Auditor-General

Pietermaritzburg

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence